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Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

October 1983

CENTRAL AMERICAN MONTHLY REPORT #3 [redacted]

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Summary

*Tensions in the region continue to escalate as the search for a peaceful solution goes on. The Sandinista regime has come under intense military and economic pressure over the past month as a result of continued insurgent attacks, but it is reacting defiantly and calling for more military aid. In El Salvador, the insurgents have continued their offensive actions, although their military resupply from Cuba and Nicaragua may be reduced. In Guatemala, Chief of State Mejia has removed one of his main military rivals, but the security situation remains tense as a result of both rightist and leftist violence. The Honduran government is pushing for greater regional cooperation against the Sandinistas*

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*Costa Rican relations with Nicaragua have reached a new low as a result of a Sandinista attack on a Costa Rican border post. In Panama, President de la Espriella and General Noreiga continue to maneuver in preparation for next year's scheduled elections. Finally, the Contadora peace effort has produced several draft treaties, but serious obstacles remain.*

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*This memorandum was prepared by the Central America Branch, ALA. It was coordinated with the Directorate of Operations. It contains information available as of 31 October 1983. Questions and comments are welcome and should be addressed to Chief, Middle America-Caribbean Division, OALA,*

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**NICARAGUA****Military**

The most significant insurgent actions this month were early October raids on petroleum facilities at Corinto and Puerto Isabel, which resulted in the destruction of nearly 5 percent of the country's storage capacity. Another sabotage attack on the crude oil terminal at Puerto Sandino was evidently less successful, as were raids on Puerto Cabezas and El Bluff. [REDACTED]

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The FDN continued to harass Sandinista forces in central Nicaragua, with clashes occurring almost daily. So far there is no evidence of the supply problems that hampered the insurgents last spring, despite the loss of a transport aircraft early in the month. The largest single action was the 19 October takeover of Pantasma, a town in Matagalpa Department. By Sandinista accounts, the insurgents killed 46 persons--mostly government employees--and destroyed several military and government facilities. [REDACTED]

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The Misura (Miskito Indian) guerrillas appear to control most of the Atlantic coastal region, apart from the main towns.

[REDACTED]

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The Sandinistas have responded to the insurgent activity with large scale sweep operations by regular and reserve units and increased use of airstrikes. They also are strengthening air defenses around Managua, Corinto, and Puerto Sandino. The buildup of the new territorial militia for local defense continues [REDACTED]

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[REDACTED]

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### Political

The Sandinistas have reacted to recent insurgent attacks--and to the invasion of Grenada--by organizing mass rallies, calling for increased civil defense measures and revolutionary vigilance, and bracing the population for additional sacrifices. The regime has also issued several public warnings to the opposition. [REDACTED]

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Following insurgent attacks on both northern and southern border posts, Defense Minister Humberto Ortega asserted that the Sandinista military would pursue the insurgents into Honduran and Costa Rican territory. Although those remarks were later qualified, they indicate waning Sandinista patience with insurgent incursions. The regime subsequently declared a new 25 mile security zone off both its coasts for air and sea traffic. [REDACTED]

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The Sandinistas apparently consider the Kissinger Commission a US political ploy, and its visit was marred by sharp exchanges with Foreign Minister D'Escoto and Junta Coordinator Daniel Ortega. Ortega's meeting with Assistant Secretary of State Motley was also strained. While professing a readiness to meet

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[redacted]

US security concerns, he hinted at both regionalization of the conflict and radicalization of the revolution if insurgent attacks continue. [redacted]

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Interior Minister Borge returned from his trip to seven West European countries and Libya claiming he had received considerable political and financial support. Nevertheless, US Embassy reports indicate several leaders criticized the Sandinistas' failure to keep their democratic promises. Borge's disastrous visit to Germany reportedly resulted in a shouting match with Foreign Minister Genscher. [redacted]

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### Economic

Nicaragua's energy situation has become strained, but still manageable, after recent insurgent attacks on its energy infrastructure. The destruction of fuel tanks at Puerto Isabel will have a severe effect on east coast energy supply. The crucial crude oil import terminal at Puerto Sandino has been repaired and is still functioning despite several sabotage attacks. Getting ships to deliver crude from Mexico has become a serious problem, however [redacted]

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In early October, the government raised fuel prices by 40 percent in an effort to conserve supplies and raise revenue. Recently announced measures include cuts in rationing allocations and reduction of the work week. The Sandinistas are attempting to minimize popular discontent by continuing public transport subsidies. [redacted]

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The government announced in late September that it will soon set mandatory pay scales for all salaried employees in the country. The plan will further extend state control over the economy and the private sector, and require a large and intrusive bureaucracy. [redacted]

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Nicaragua announced new credit agreements with Yugoslavia--\$25 million--and the Netherlands--\$5 million. Meanwhile, new information indicates that Nicaragua has established a joint economic commission with CEMA, the Communist trade organ, but it did not become a full observer. [redacted]

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**EL SALVADOR****Military**

The guerrillas' joint offensive in eastern and central El Salvador continued throughout October. Their activity in large part has been marked by hit-and-run attacks against small towns and isolated garrisons, sabotage of electrical facilities and bridges, and ambushes of government relief forces. Government units took particularly heavy losses in attacks on Tenancingo and Nuevo Eden de San Juan. The offensive has succeeded in blunting much of the momentum built by the Army during its summer campaign. [REDACTED]

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The Army's optimistic outlook evident this summer has now given way to some pessimism. [REDACTED]

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Nevertheless, the Army continues to launch sweep operations to regain lost territory and preempt insurgent actions. [REDACTED]

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### Political

Salvadoran labor turned out for a demonstration in late September in support of more liberal reforms in the draft constitution currently being debated in the Assembly. Some 15,000 to 20,000 workers and campesinos staged a peaceful rally in San Salvador that was actively supported by members of the Christian Democratic Party. [REDACTED]

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The rally was overshadowed by a resurgence of rightwing death squad activity aimed at ending the reform campaign. Several union leaders and leftist intellectuals have been either kidnapped or killed. Ultrarightist leader Roberto D'Aubuisson charged publicly that the moderate leader of the largest democratic campesino labor organization had ties with the extreme left. An Assembly deputy also received a telephone threat during legislative debate on reform articles, causing the session to be suspended. Each of the parties in the Assembly is promoting its own version of an article dealing with land tenure, but a compromise is expected on the amount of land available for future agrarian reform. [REDACTED]

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The presidential election is still on track for the first quarter of 1984. [REDACTED]

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[REDACTED]

[REDACTED]

There were no meetings this month between the government's peace commission and the insurgents. The insurgents have proposed El Salvador as the site for any future meetings. The government is reluctant to accept this, however, and the dialogue is at an apparent impasse. [REDACTED]

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### **GUATEMALA**

#### Political

[REDACTED]

Mejia formally completed the electoral timetable by publicly endorsing constituent assembly elections next July. He also noted that he intends to turn power over to an elected civilian

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government in July 1985. Some 30 political organizations have begun organizing to contest the elections, but probably less than half of those will meet the requirements to become inscribed as political parties. Moreover, political intimidation and human rights abuses increased this month as the political campaign got underway, and some new parties may opt not to participate because of security concerns. Three Christian Democratic Party leaders recently were murdered, and two leaders of a new left-of-center party were abducted last month. There are indications that organized rightwing violence--some involving security forces--is increasing, including two separate cases involving the abduction of Guatemalan employees of the US Agency for International Development. [REDACTED]

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### Military

During the first half of October, the insurgents kept up the increased level of terrorist attacks noted in September. Even so, they have not been able to make use of the political instability to retake the tactical advantage from the military. The military, in fact, has stepped up its operations in rural areas, particularly in two areas along the Mexican border considered by the Army to be major insurgent supply corridors. A military spokesman claims that in one action the Army ambushed an insurgent force and inflicted 50 casualties. [REDACTED]

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The insurgents, however, have countered with some high-visibility terrorism successes, and they appear to have reestablished a strong urban network. The Guatemalan Communist Party--which announced it was formally joining the guerrilla alliance--released the abducted owner of a major newspaper after receiving a ransom of approximately \$400,000 and getting a propaganda statement published. The guerrilla group that kidnapped the sisters of Mejia and former President Rios Montt also secured publication of an anti-government, anti-US statement in exchange for their release. [REDACTED]

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### Economic

Tax revenues collected during the first month under the new value added tax--before the rate was reduced by Mejia--were far below government projections, and shortfalls are likely to

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increase under the weakened tax formula. An IMF team will study the impact of reduced tax revenues on Guatemala's ability to comply with the guidelines of a \$120.5 million loan agreement signed in September. [REDACTED]

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## HONDURAS

### Political

President Suazo continues to convalesce from his July heart attack. Press reports state that he is undergoing daily medical evaluations and working only half a day. The same reports indicate that Gustavo Adolfo Alfaro, an economic adviser, has taken on a substantial role in handling affairs of state. If true, this development suggests that presidential troubleshooter Carlos Flores has lost some influence. [REDACTED]

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Despite his health concerns, Suazo remains an active participant in regional issues. He was eager to host a meeting of regional heads of state on 25 September under the auspices of CONDECA, although the plans fell through. Tegucigalpa apparently is anxious to promote CONDECA as a means of getting Guatemala and El Salvador formally committed to the defense of Honduras against Sandinista attack, but those countries are reluctant to move too rapidly in that direction. Military representatives from the CONDECA countries--Guatemala, El Salvador, Honduras, and Panama--did meet in Tegucigalpa in late October. [REDACTED]

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### Military

Border incidents continue to be reported by both Honduras and Nicaragua, although there has been no noticeable increase in their frequency. Tegucigalpa reacted strongly to Humberto Ortega's recent statement that Nicaragua would enter Honduras in pursuit of insurgents, stating that it would use all of its defensive resources to repel foreign incursions. [REDACTED]

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[redacted]

As an indication of its concern for border security, the Honduran Armed Forces recently purchased two Brazilian Bandeirante reconnaissance aircraft for delivery in mid-1984. The Honduran Air force already has maintenance and logistic problems stemming from the diversity of its supplies, and the addition of Brazilian equipment will further complicate matters. [redacted]

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## COSTA RICA

### Political

Relations with Nicaragua reached a new low this past month. Sandinista troops attacked Costa Rican border units at Penas Blancas on 28 September, apparently in retaliation for an assault by Pastora's forces there earlier the same day. San Jose reacted by recalling its Ambassador from Managua and calling an extraordinary meeting of the OAS Permanent Council to denounce the incident. [redacted]

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Officials have also stepped up security efforts in San Jose because of a resurgence of terrorist activity in the capital. An attack on the British Ambassador's residence on 30 September reportedly may have involved members of the Basque ETA terrorist group. Authorities have apprehended two more terrorists linked to the ETA plot to assassinate insurgent leader Pastora discovered in early September. Spain has formally requested extradition of the Basque terrorist arrested last month, but [redacted] Costa Rica is unlikely to fulfill the request. Most recently, a plan to kidnap government and US Embassy officials has been uncovered. The hostages would be exchanged for local terrorists currently imprisoned in Costa Rican jails. [redacted]

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Regarding regional ties, Monge strengthened relations with Mexico while on a 3-day trip there at mid-month. His meetings with Mexican President de la Madrid reportedly were cordial, although major differences in policy toward Nicaragua persist. [redacted]

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Economic

Positive economic news over the last month came in the form of various Western aid pledges. These included a \$32 million US assistance agreement, a \$15 million loan from Canada, a \$9.5 million West German loan, an Italian offer to extend Costa Rica a new \$40 million line of credit, and a Norwegian donation of \$150,000 in refugee assistance. The growing refugee problem, brought about by a continued flood of Nicaraguans, prompted San Jose to declare a national emergency in early October. The number of Nicaraguans in Costa Rican refugee camps may have reached about 2,000. [REDACTED]

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Less favorable economic news included a report that Costa Rica's foreign public debt increased by \$250 million, or 10 percent, over the last year to reach a total of nearly \$2.75 billion. Further, the proposed 1984 budget issued at the end of September threatens to jeopardize Monge's austerity policies by nearly doubling the government's deficit from last year's figure. This and commitments specified in the 1983 agreement led to a postponement of talks on a 1984 IMF standby agreement originally scheduled to take place in mid-October. Resumption of talks recently have been conditioned upon a requirement that the government cut public spending by at least \$50 million, a prerequisite that San Jose indicates it might be able to meet through cost cutting administrative practices rather than budgetary revisions. [REDACTED]

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**PANAMA**Political

The sudden withdrawal of former National Guard Commander Paredes from the presidential race early last month created disarray in the electoral plans of both the ruling Revolutionary Democratic Party and its political opposition. [REDACTED]

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The idea of delaying the elections failed to attract much political support, however, and as a result the President has publicly announced the election will be held as scheduled in May

1984. Nevertheless, he and General Noriega probably have not given up on the postponement idea, and they may attempt to revive it in the future should circumstances permit it. [REDACTED]

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Meanwhile, the elimination of both Paredes and the constitutionally-restricted de la Espriella from the presidential race has cast longtime opposition leader Arnulfo Arias into the role of frontrunner. The thrice-elected and deposed Arias--now 82--remains the most popular political figure in Panama, but the military is having serious difficulty accepting an Arias candidacy because of Arias' traditional animosity toward the armed forces. [REDACTED]

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Electoral political maneuvering in Panama is only beginning, however, and both Noriega and Arias will continue to test each other's position until the last possible moment. Despite an apparent improvement in relations between the two recently, basic distrust remains, and close collaboration between them seems unlikely. Noriega--as the ultimate power arbiter in Panama--will continue to insure the military's interests are best served in the elections or else he is likely to intervene in the process.

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### Military

Noriega announced a new law late last month reorganizing the National Guard into the "Defense Forces of the Republic of Panama." The law establishes the President as supreme commander of the military and creates three additional general officer slots which will be filled as the new force grows. The law also prohibits active service members from joining political parties or participating in political activities, but does allow military personnel to vote. [REDACTED]

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The restructuring of the Guard along more conventional military force lines probably reflects Noriega's growing concern over regional unrest and his desire to significantly upgrade Panama's overall military capabilities. The US Embassy reports that Noriega has requested an informal visit to Washington next month to discuss force development projections and possible US security assistance support. Meanwhile, the recent formation of the first battalion-sized combat unit is being touted as the initial step toward the assumption of full responsibility for Canal defenses by the end of the century. [REDACTED]

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The political opposition has been highly critical of the defense law, claiming that it will allow the military to turn

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[redacted]

Panama into a police state. Noriega has moved quickly to defuse the controversy, however, by requesting that the President review those articles of the law that its opponents find most objectionable. [redacted]

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### Economic

The US Embassy reports that Panama's economy now appears headed into a deeper recession than earlier forecasts had predicted. Panamanian officials estimate that real GDP will decline 2.8 percent in 1983, and recovery does not appear likely before late 1984. A local economic consultant says nationwide unemployment is currently running at 17 percent, and one government official has publicly stated that unemployment in the Colon Free Zone Area--where some stores report sales down by as much as 50 percent--is near 60 percent. [redacted]

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A new strike of banana workers earlier this month is adding to the government's problems. The President has publicly termed the strike as irresponsible, threatening to use the military to break it up if the workers' union does not adopt a more reasonable negotiating position. Officials of the US-owned company say they are prepared to close some operations and lay off as many as 1,250 workers, thereby exacerbating the already critical unemployment situation. [redacted]

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### REGIONAL PEACE NEGOTIATIONS

The Foreign Ministers from the Contadora countries--Mexico, Venezuela, Panama, and Colombia--met in Panama on 21-22 October to discuss implementing the "document of objectives" which the five Central American nations endorsed in September. The Ministers reportedly completed rough drafts on two bilateral treaties--Nicaragua-Honduras and Nicaragua-Costa Rica--and a general Central American treaty. [redacted]

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The Vice-Foreign Ministers of the Contadora group will reconvene in Panama in early November for additional discussion of the drafts. [redacted] they will also work on other treaties on arms reduction, military advisers, and military forces. A meeting of all nine Foreign Ministers during the mid-November OAS General Assembly in Washington is planned. [redacted]

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[redacted]  
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[REDACTED]

Meanwhile, Foreign Minister D'Escoto unveiled new Nicaraguan peace proposals after meeting with US officials in Washington on 20 October. The Sandinista initiative apparently was intended to maintain their emphasis on bilateral agreements and to project an image of flexibility during the US Congressional debate on Nicaragua. The proposals include two bilateral treaties, Nicaragua-US and Nicaragua-Honduras, and a broad Central America security treaty. D'Escoto stated that additional agreements might be negotiated on foreign military advisers, the size of military forces, and introduction of new weapons. The Nicaraguans proposals avoid key regional concerns such as democratization and verification measures. [REDACTED]

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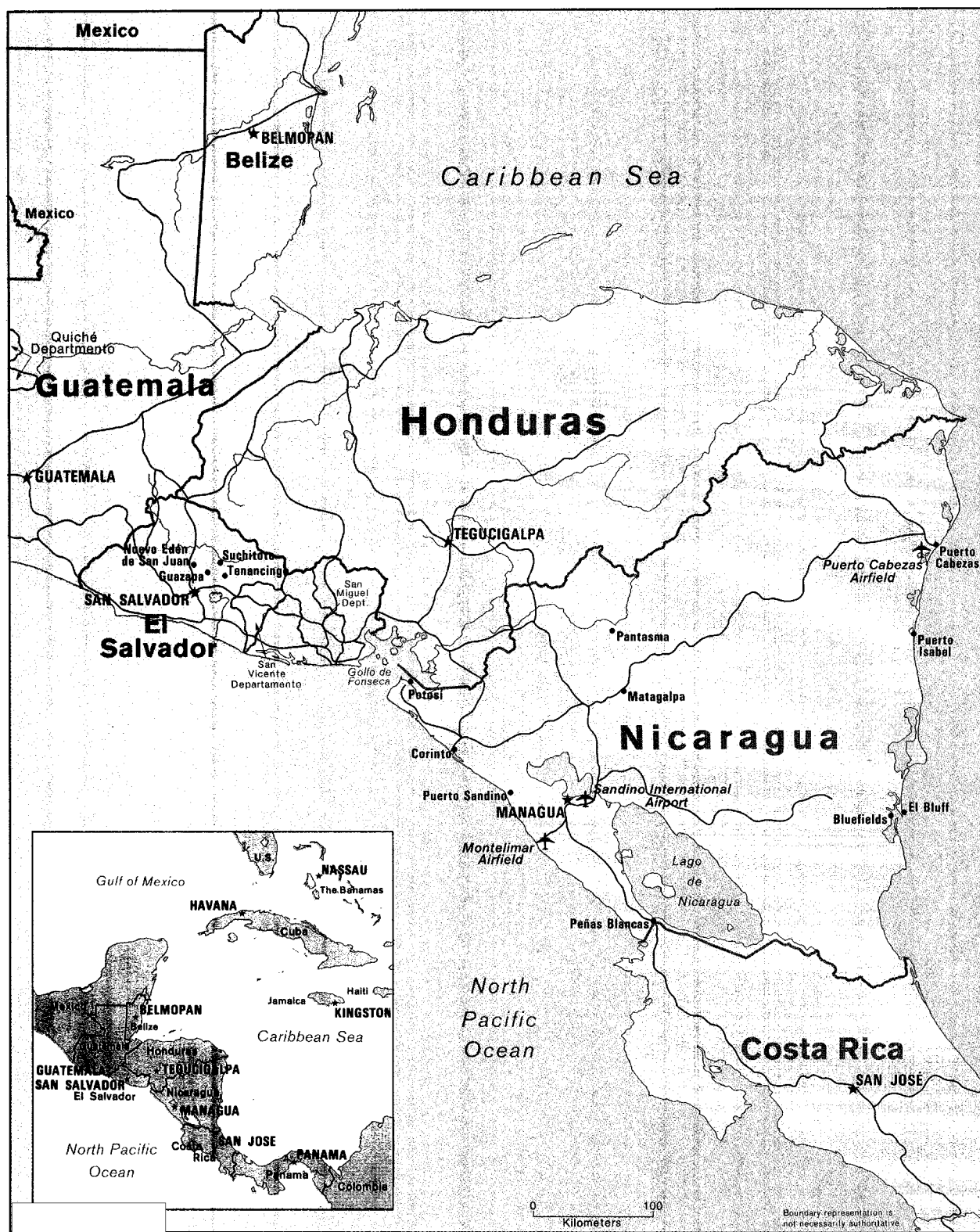
The Sandinistas also presented a fourth treaty that would end arms shipments to the government and the guerrillas in El Salvador. This would place both sides on an equal footing without conceding that Nicaragua is supporting the insurgents. [REDACTED]

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To get the Contadora countries to focus on El Salvador, D'Escoto had Mexico present the Nicaraguan peace proposals at the recent meeting in Panama. The Sandinistas apparently seek Contadora involvement in the Salvadoran peace process as a means of obtaining greater legitimacy for the insurgents. The other Central American states have sought to focus on Nicaragua as the main source of regional problems. [REDACTED]

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